

§ 1235.2

§ 1235.2 Implementation guidance.

ACTION's implementation of section 224 of the DVSA is based on fundamental principles regarding the Congressional intent of the Section as well as the Executive Branch's policy on Federal financial assistance to grantees. These principles include:

(a) That ACTION may not restrict grantees' use of excess contributions as long as those expenditures are "not inconsistent" with the Domestic Volunteer Service Act of 1973, as amended;

(b) That grantees are to fully account for and document expenditures of non-Federal contributions, regardless of whether they are used to meet ACTION's local match requirement or are in excess of the requirement; and

(c) That all expenditures in support of a Federal grant can be audited by the responsible Federal Agency or by independent auditors performing audits pursuant to OMB Circulars A-128 and A-133. Copies of OMB Circulars A-128 and A-133 are available at ACTION, 1100 Vermont Avenue, NW., Room 9200, Washington, DC 20525.

§ 1235.3 Statement of policy.

(a) Expenditures of locally generated non-Federal contributions required by the Director as matching funds must meet the requirements specified in ACTION's Grant Management and Program Operations Handbook, ACTION Order 2650.2, as amended, and the Domestic Volunteer Service Act of 1973, as amended. Copies of ACTION's Grants Management and Program Operations Handbook, ACTION Order 2650.2, as amended, are available at ACTION, 1100 Vermont Avenue, NW., Room 9200, Washington, DC 20525.

(b) All expenditures by the grantee of Federal and non-Federal funds (including expenditures from excess locally generated contributions) in support of the grant are subject to ACTION authorized audits.

(c) ACTION will not restrict the manner in which locally generated contributions in excess of the required match are expended if these expenditures are not inconsistent with the Domestic Volunteer Service Act of 1973, as amended.

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APPENDIX TO PART 1235—PROCEDURES TO RESOLVE QUESTIONED COSTS

I. Because implementation of section 224 may impact on how questioned costs are treated when raised in the context of an audit or program monitoring exercise, this appendix explains how questioned costs will be resolved. This part does not create any new auditing requirements.

II. All expenditures in support of a federal grant may be reviewed by an authorized audit or program monitoring review. Adequate financial records and supporting documentation must be maintained for both cash and in-kind contributions. (See ACTION's Grants Management Handbook for Grantees, ACTION Order 2650.2)

III. Three definitions are important to understand in relation to resolution of questioned costs:

(a) The term "questioned cost", pursuant to the Inspector General Act of 1978, as amended, 5 U.S.C. Appendix 3, means an expenditure of grant funds that is questioned because of:

(1) An alleged violation of a provision of the Domestic Volunteer Service Act of 1973, as amended, or other law, regulation, or grant governing the expenditure of funds by the grantee;

(2) A finding that at the time of an audit or program review the cost is not supported by adequate documentation; or

(3) A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

(b) The term "disallowed cost" means a questioned cost related to federal or local match expenditures that ACTION management, in a management decision, has sustained or agreed should not be charged to the Government.

(c) The term "program finding" means a questioned cost identified as from the grantee's excess locally generated contributions which is referred to ACTION program management for consideration.

IV. When costs are questioned from locally generated contributions, a distinction will be made between costs as part of the *local match* and costs as part of the *excess contribution*.

V. Normally, when expenditures of Federal or non-Federal local match funds are questioned, a management decision is made to either allow or disallow the costs. When an expenditure of excess locally generated funds is questioned, however, it will not be treated as a potential disallowed cost but identified as a program finding and referred to ACTION program management for resolution.

VI. Program findings may include, but are not limited to:

(a) Inadequate records to document the expenditures and provide assurance of the grantee's internal controls over the use of its cash and in-kind contributions; and

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(b) Evidence that expenditures were made that are inconsistent with the Domestic Volunteer Service Act of 1973, as amended.

VII. Once program findings are determined by ACTION program management, decisions may be made to take corrective steps, including but not limited to:

(a) Requiring the grantee to adhere to stated program goals and objectives as a condition for future funding;

(b) Requiring the grantee to adopt a stronger financial management and control system.

Based on past experience, it is expected that corrective steps will be needed only in rare instances.

VIII. If the grantee has raised locally generated contributions in excess of the matching requirement and those expenditures are not questioned, and are consistent with the DVSA of 1973, as amended, for local match expenditures, they may be substituted for any disallowed portion of local match costs in order for the grantee to meet its matching requirement.